



COUNCILMEMBER DONNA FRYE

**City of San Diego
Sixth District**

MEMORANDUM

DATE: October 4, 2007

TO: Honorable Mayor Jerry Sanders
Jay Goldstone, CFO/COO

FROM: Councilmember Donna Frye

SUBJECT: Preservation of Benefit Plan

An April 16, 2007 Cheiron Report (see attached page 6) regarding the City of San Diego's pension debt stated that there was a \$22.8 million reduction in the unfunded pension liability due to the *"Proper treatment of IRS benefit limitations."* This resulted in the \$22.8 million pension liability becoming a direct obligation of the City.

The 2007/2008 budgeted included approximately \$500,000 in the Citywide fund to pay a portion of the \$22.8 million liability.

On August 14, 2007 Cheiron issued an updated analysis (see attached) for purchase of service credits. In that analysis, Cheiron estimated that the net actuarial deficiency between the additional value of benefits is approximately \$146 million. Of that, approximately \$20 million *"...is not part of SDCERS' unfunded actuarial liabilities..."* Instead, the \$20 million *"...represents benefits in excess of IRS limitations (Section 415) and is a direct obligation of the City."*

Is the \$20 million (shown in the August 14, 2007, Cheiron report) part of the existing \$22.8 million City liability (shown in the April 16, 2007 Cheiron report) or is the \$20 million in addition to the \$22.8 million?

Thank you for your prompt response.

CC: Honorable City Council
City Attorney, Michael Aguirre
Independent Budget Analyst, Andrea Tevlin
Stanley Keller, Independent Monitor
SDCERS Boardmembers

DF/ks

Why the Unfunded Actuarial Liability Decreased

(\$ in millions)

1) Investment performance.....	\$ 158.9
2) Asset smoothing method.....	183.8
3) Contributions greater than expected.....	105.6
4) Liabilities growing less than expected.....	46.3
5) Proper treatment of disability benefits.....	9.9
6) Proper treatment of IRS benefit limitations.....	22.8
7) Addition of "contingent" liabilities.....	(112.7)
8) Expected growth in the UAL.....	<u>(21.4)</u>
Total decrease in UAL	\$ 393.2

August 14, 2007

Mr. David Wescoe
Retirement Administrator
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear David:

When we appeared before the Board in July, we were asked to update our previous analysis of the experience of the purchase service credit (PSC) program since inception to include all categories of participants (e.g., actives, terminated vested) and those in pay-status (e.g., retirees, beneficiaries and disabilities). This letter presents the results of our update and additional conclusions based on this update.

Exhibit A (attached) provides a summary of our analysis.

Our key findings are as follows:

- Cheiron estimates that the net actuarial deficiency between the additional value of benefits due to the additional service credits and the accumulated amounts paid by all active participants, retirees (including active DROPS), and term vested for such additional credits, as of the June 30, 2006 actuarial valuation, is approximately \$146 million.

As requested, this amount is comprised of the following categories:

a. Pre-2000	\$ 20 million
b. 7/1/2000-6/30/2002	\$ 63 million
c. 7/1/2002-8/15/2003	\$ 29 million
d. 8/16/2003-10/31/2003	\$ 34 million
e. 11/01/2003-6/30/2006	<u>\$ 0 million</u>
Total	\$146 million

- Our analysis is consistent with Navigant Consulting's January 2006 estimate of "more than \$100 million," which was based on the June 30, 2004 actuarial valuation.
- As we have previously reported to the Board, the current rates being charged today "make the system whole." As a result, we continue to recommend that SDCERS make no change to the current rate structure until we complete our experience study in the summer of 2008. At that time, we will likely recommend changes to the current pricing methodology and review process.



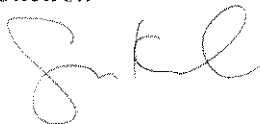
Mr. David Wescoe
August 14, 2007
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- Approximately \$20 million of the \$140 million liabilities is not part of SDCERS' unfunded actuarial liabilities (UAL) as of June 30, 2006. This amount represents benefits in excess of IRS limitations (Section 415) and is a direct obligation of the City. Until the on-going work in connection the IRS VCP program is finished, we will not know the final number for this item.
- Amounts reflected in the City's June 30, 2006 UAL are included in the City Annual Required Contribution payment. There would be no impact on SDCERS' financial condition, current or projected, if responsibility for funding this deficiency was transferred from the plan sponsors to others (e.g. current or former members).
- With respect to the UPD and Airport Authority, we presented to the board an analysis in July which showed an additional net PSC liability of \$3.7 million attributable to active members as of June 30, 2006.

Finally, our analysis is based June 30, 2006 actual data and reflects accumulative experience gains and losses (people living longer, retiring different than assumed, salary increases, etc.) that could not be anticipated at the time any member actually purchased service.

Please let me know if you have any questions.

Sincerely,
Cheiron



Gene Kalwarski, FSA
Consulting Actuary

Attachment

CITY of San Diego Purchase Service Credit Analysis

			RETIREES, TVS, and		
A1. Contracts Effective before 7/1/2000 (Pre-Corbett)	GENERAL	SAFETY	TOTAL ACTIVE	BENEFICIARIES	GRAND TOTAL
Total Contracts	97	18	115	332	447
Average Age at Purchase	44.6	40.9	44.0	53.9	51.3
Total Years	397	66	463	1,196	1,660
Average Years/contract	4.1	3.7	4.0	3.6	3.7
Contract amount accumulated to June 30, 2006	3,832,614	1,452,109	5,284,723	7,134,269	12,418,992
Additional Liability as of June 30, 2006-Benefits at Purchase Date	5,289,523	1,507,627	6,797,151	26,019,851	32,817,001
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ (1,456,909)	\$ (55,518)	\$ (1,512,427)	\$ (18,885,582)	\$ (20,398,009)
A2. Contracts Effective 7/1/2000 - 6/30/2002 (MP2/Old Rates)					
Total Contracts	586	134	720	858	1,578
Average Age at Purchase	44.9	38.4	43.7	53.2	48.9
Total Years	2,469	366	2,834	3,232	6,066
Average Years/contract	4.2	2.7	3.9	3.8	3.8
Contract amount accumulated to June 30, 2006	24,800,778	6,868,596	31,669,375	25,992,860	57,662,235
Additional Liability as of June 30, 2006-Benefits at Purchase Date	37,186,801	6,414,761	43,601,561	76,653,167	120,254,728
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ (12,386,022)	\$ 453,836	\$ (11,932,186)	\$ (50,660,307)	\$ (62,592,494)
B1. Contracts Effective 7/1/2002 - 8/15/2003 (Board Action/Old Rates)					
Total Contracts	575	194	769	417	1,186
Average Age at Purchase	45.9	39.9	44.4	52.7	47.3
Total Years	2,171	512	2,683	1,446	4,129
Average Years/contract	3.8	2.6	3.5	3.5	3.5
Contract amount accumulated to June 30, 2006	19,712,630	9,347,114	29,059,744	13,797,577	42,857,322
Additional Liability as of June 30, 2006-Benefits at Purchase Date	28,923,615	9,451,816	38,375,431	33,716,183	72,091,615
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ (9,210,985)	\$ (104,702)	\$ (9,315,687)	\$ (19,918,606)	\$ (29,234,293)
B2. Contracts Effective 8/16/2003 - 10/31/2003 ("Grandfathered" and "Window" members/Old Rates)					
Total Contracts	1,609	412	2,021	371	2,392
Average Age at Purchase	44.6	40.7	43.8	49.8	44.8
Total Years	5,726	828	6,554	1,287	7,841
Average Years/contract	3.6	2.0	3.2	3.5	3.3
Contract amount accumulated to June 30, 2006	49,363,269	15,510,817	64,874,086	13,297,562	78,171,648
Additional Liability as of June 30, 2006-Benefits at Purchase Date	71,413,136	14,463,793	85,876,929	26,252,431	112,129,360
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ (22,049,867)	\$ 1,047,024	\$ (21,002,842)	\$ (12,954,869)	\$ (33,957,712)
C. Contracts Effective 11/1/2003 - Present (New Rates)					
Total Contracts	170	101	271	101	372
Average Age at Purchase	47.2	36.4	43.1	50.4	45.1
Total Years	479	273	752	196	948
Average Years/contract	2.8	2.7	2.8	1.9	2.5
Contract amount accumulated to June 30, 2006	4,966,536	4,063,647	9,030,183	3,068,635	12,098,816
Additional Liability as of June 30, 2006-Benefits at Purchase Date	4,964,886	2,426,237	7,391,123	5,133,245	12,524,368
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ 1,650	\$ 1,637,409	\$ 1,639,059	\$ (2,064,612)	\$ (425,553)
D. GRAND Total For All 5 Periods					
Total Contracts	3,037	859	3,896	2,079	5,975
Average Age at Purchase	45.1	39.6	43.9	52.5	46.9
Total Years	11,242	2,045	13,286	7,357	20,643
Average Years/contract	3.7	2.4	3.4	3.5	3.5
Contract amount accumulated to June 30, 2006	102,675,827	37,242,284	139,918,111	63,296,901	203,209,012
Additional Liability as of June 30, 2006-Benefits at Purchase Date	147,777,961	34,264,234	182,042,195	167,774,878	349,817,073
Gain/(Loss) as of June 30, 2006-Benefits at Purchase Date	\$ (45,102,133)	\$ 2,978,049	\$ (42,124,084)	\$ (104,483,976)	\$ (146,608,060)